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SUBJECT: Argentina Central Bank Funds Frozen - A Conspiracy to Topple
the President?

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SUMMARY

¶1. (C) GoA reaction to a U.S. Judge's January 12 decision to embargo some official Argentine funds was swift and strong, but rather than taking aim at the USG, Argentine President Cristina Fernandez de Kirchner (CFK) and other officials are accusing some Argentines - including Vice President Cobos - of a conspiracy to force her out of office. Critical comments about the judge's decision were few in comparison to the comments leveled against the bond holdouts who initiated the action as well as many in Argentina, not only the VP but also the Central Bank President, a federal judge, a large media group, and other unnamed government officials as well as "powerful external interests." The Economy Minister acknowledged that these events were complicating efforts to settle defaulted debt, but gave assurances that those efforts remained on track. End summary.

EMBARGO AND RESPONSE

¶2. (SBU) According to press reports, U.S. District Court Judge Thomas Griesa, in New York, ordered a freeze on Argentine Central Bank (BCRA) funds in the U.S., and the GoA's reaction was quick and negative. Economy Minister Boudou held a press conference to criticize the decision just hours after the news became public. The amount of funds is unclear - Boudou said it was only US\$ 1.7 million (a "symbolic" amount), and could not exceed US\$ 15 million in any case, while some press reports indicate the total could reach over US\$ 3.1 billion, which was the upper limit set by Judge Griesa. Boudou called Griesa a "serial embargoer," noting that Griesa had previously frozen GoA funds, but also acknowledging that those freezes were later reversed. Boudou made numerous critical comments about the "vulture funds" which had filed the case that prompted the decision, which is over GoA debt in default since ¶2002. The case was apparently prompted by a recent GoA decision (Ref A) to divert US\$ 6.6 billion in Central Bank reserves to meet debt coming due in 2010, lending support to the argument that BCRA funds are not sovereign but rather at the disposal of the GoA.

¶3. (SBU) President Fernandez de Kirchner added her own comments later that evening, citing Boudou's "serial embargoer" comment and calling this the "fourth or fifth" time Griesa had attached GoA funds since 2003. Beleaguered BCRA President Martin Redrado (Ref A) said on January 13 that the BCRA would appeal Judge Griesa's decision with "solid, forceful arguments," and he expressed confidence that they could secure a reversal of it.

CONSPIRACY THEORY

14. (C) Though the case was initiated by private bond holders in the U.S., CFK and Boudou both alleged that the activity was the result of a much deeper conspiracy. CFK pointed the finger directly at Vice President Julio Cobos, saying that "It seems to me that he doesn't want to wait until 2011, that he wants to be President before." (Note: 2011 is the year of the next presidential election, for which Cobos is a front-runner in polls.) She also called Redrado a "squatter" in his position, thanks to a "delivery-service judge," and suggested that the judge hearing the case regarding CFK's dismissal of Redrado (see Ref A) was "following every request of the Vice President." She expanded the conspiracy to include media giant Clarin, calling it "curious" that the Sunday edition of their paper had an article about a possible funds embargo with a picture of Griesa. Boudou also criticized Cobos harshly, addressing him directly and telling him to "play your role, you are not a legislator, you are the government's representative in the Senate but instead are acting as the de facto president of the opposition." Boudou also said that "it seems that the vulture funds have offices and representatives in Buenos Aires, sometimes within the government." He also told the BCRA President, without apparent irony, to "let institutions work."

15. (SBU) Cobos, who according to press reports citing close aides was angrier over the accusations than they had ever seen him, responded in a press conference from his home in Mendoza - where, ironically, he had gone to escape the uproar over the Central Bank disputes. He said that "the conspiracy I see is against me. They don't consult me; there's no dialogue." He added that if there is any inclination by GoA officials to remove someone from office, it's aimed at "the Vice President of the Nation." He stated that he intended to finish his term in 2011: "We (he and CFK) will go together." Apart from Cobos's Radical party, opposition figures seemed to be avoiding any defense of Cobos, which the press attributes to the hope among Cobos's rivals in the opposition that the frontrunner in the 2011 presidential race will be weakened to their benefit.

WHAT ABOUT THE DEBT EXCHANGE?

16. (SBU) Boudou affirmed that the GoA's pending proposal of debt swap for bond holdouts "continues moving forward," but he acknowledged that the "sequence" of events surrounding it could be affected by falling bond prices. He blamed that drop on events that had occurred since Friday, implicitly holding Redrado as well as the "vulture funds" responsible. He alleged there was a conspiracy, abroad and in Argentina, to force the GoA to pay higher interest rates on new debt. CFK sought to argue that GoA efforts to divert reserves to pay debt were intended to reduce the high interest rates the GoA currently pays on debt, blaming those rates on the 2001 debt defaults, adding that "I want to remind you that this government did not declare the default." Boudou also praised at length GoA achievements of reducing country risk and increasing the market value of existing GoA debt.

COMMENT

17. (C) That the USG, despite the U.S. nexus, is not in the GoA crosshairs during this crisis is good news, but the fact that the GoA - starting with the President - is again publicly accusing its critics and opponents of a conspiracy is troubling. Whether the President believes the conspiracy allegations she has leveled or not, she is again taking a maximalist position that leaves her little room for pursuing a compromise. At first glance, it is a

healthy development for institutional checks and balances that the Congress is asserting its right to review executive decrees, even as the President and her allies argue that only the President can summon Congress when it is not in session. While CFK postures about her efforts to reduce Argentina's debt burden, she refuses to acknowledge that her own aggressive attitude and unfounded accusations may perpetuate a crisis in which all Argentines lose. One local analyst calls this the "Kirchner risk," which threatens to not only complicate Argentina's financial obligations and economic prospects but also to weaken its democratic institutions.

KELLY